

**Diamond State Port Corporation**

**June 30, 2007**

**Management Letter Comments**

## TRANSMITTAL LETTER

August 20, 2007

Parul Shukla, Director of Finance and Administration  
Diamond State Port Corporation  
1 Hausel Road  
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In planning and performing our audit of the financial statements of the Diamond State Port Corporation for the year ended June 30, 2007, we considered the Port's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. We previously reported on the Port's internal control in our report dated August 20, 2007. This letter does not affect our report dated August 20, 2007, on the financial statements of the Diamond State Port Corporation.

We will review the status of these comments during our next audit engagement. We have already discussed some of these comments and recommendations with various Port personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*McBride, Shopa & Co*

Wilmington, Delaware

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DIAMOND STATE PORT CORPORATION  
MANAGEMENT LETTER COMMENTS  
FISCAL YEAR ENDED JUNE 30, 2007

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## **RECOMMENDATION 07-01**

### **ACCOUNTING DEPARTMENT – SEGREGATION OF DUTIES**

#### **Condition:**

During our review of controls over cash disbursements we noted that the Accounting Supervisor and Staff Accountant have the ability to print accounts payable (A/P) checks and also have the ability to create new vendors in the A/P system. We also noted that, in the absence of the accounts payable clerk due to illness or vacation, one of them would also take responsibility for entering bills in the A/P system. In addition, the Staff Accountant is responsible for reconciling the bank statements.

#### **Reason Improvement Needed:**

Generally, those responsible for handling assets should not also have access to the associated accounting records because it presents a risk that errors or even fraud could occur and go undetected. Although there are controls in place that would catch erroneous or fraudulent checks written for large dollar amounts (i.e. departmental budgetary review and review of A/P check batches at higher levels), a risk, however remote, exists that, because of the lack of segregation of incompatible duties, the Accounting Supervisor and Staff Accountant could produce erroneous or fraudulent checks written for relatively small amounts, possibly over a long period.

#### **Recommendations:**

We recommend that access to the A/P module be restricted for the Accounting Supervisor and Staff Accountant so that only one of them be granted temporary access only during the periods in which the A/P Clerk is absent. In addition, the Staff Accountant should only be granted temporary access to print checks in the Accounting Supervisor's absence because the Staff Accountant is also responsible for the bank reconciliations.

## **RECOMMENDATION 07-02**

### **PAYROLL ACCOUNT BANK RECONCILIATIONS**

#### **Condition:**

During our audit of the payroll cash account, we noted six manual payroll checks issued in fiscal year 2007 and clearing the bank in fiscal year 2007 that were not recorded in the general ledger until fiscal year 2008. These checks were added back to the balance on June's payroll bank reconciliation as 'deposits in transit'. This was done because cash was not yet transferred into the payroll account to fund these checks as of the end of fiscal year 2007. The unfunded status of the checks does not preclude them from being booked in the general ledger in 2007. Proper accounting requires that these checks be booked in the correct fiscal year. The effect of this timing difference was not material but this type of error could potentially have occurred with a material amount.

#### **Reason Improvement Needed:**

The payroll cash account will be misstated by such checks labeled 'deposits in transit' on the payroll bank account reconciliations.

#### **Recommendation:**

We recommend that the Port correct its accounting for these items in the future.

## **STATUS OF PRIOR YEAR COMMENTS**

We issued our management letter comments for the fiscal year ended June 30, 2006 in a letter dated August 1, 2006. The following is a summary of the status of those comments.

**COMMENT 07-01: ACCOUNTING DEPARTMENT – SEGREGATION OF DUTIES**  
See current Control deficiency 07-01.

**COMMENT 07-02: FIXED ASSETS INVENTORY**  
Resolved – Fixed assets inventory was performed in fiscal year 2007.

**COMMENT 07-03: PAYROLL ACCOUNT BANK RECONCILIATIONS**  
See current Control deficiency 07-02.

**COMMENT 07-04: INVESTMENT RATE OF RETURN**  
Resolved – Management has been actively seeking appropriate opportunities for better rates.